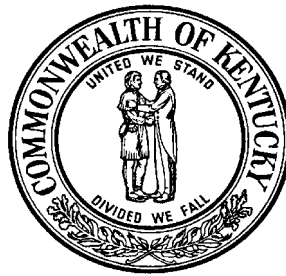


**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Janis C. Williams, Morgan County Clerk
Members of the Morgan County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Morgan County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Morgan County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
MORGAN COUNTY CLERK**

Calendar Year 2001

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Certified Public Accountants and Fraud Examiners
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MORGAN COUNTY CLERK

Calendar Year 2001

Berger & Ross has completed the Morgan County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$1,335 from the prior calendar year resulting in excess fees of \$11,548 as of December 31, 2001. Revenues increased by \$126,336 from the prior year and disbursements increased by \$124,876.

Report Comments:

The County Clerk's Office Lacks Proper Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Association of Certified Financial Accountants
Association of Government Accountants
Commonwealth of Kentucky
National Association of Public Accountants
National Association of Tax Professionals
Society of Certified Financial Planners

To the People of Kentucky
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Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Morgan County Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Janis C. Williams, Morgan County Clerk
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In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition:

- The County Clerk's Office Lacks Proper Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a stylized flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
June 6, 2002

MORGAN COUNTY
ANIS C WILLIAMS, CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Grants	\$	15,268
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State Fees For Services		5,222
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Fiscal Court		7,839
--------------	--	-------

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	296,248
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Usage Tax		960,356
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Tangible Personal Property Tax		638,593
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Licenses-

Fish and Game		8,014
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Marriage		4,313
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Deed Transfer Tax		10,182
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Delinquent Tax	91,634	2,009,340
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Fees Collected For Services:

Recordings-

Deeds, Easements, and Contracts	\$	7,863
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Real Estate Mortgages		12,330
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Chattel Mortgages and Financing Statements		47,525
--	--	--------

Powers of Attorney		562
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All Other Recordings	10,778	79,058
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Charges for Other Services:

Copywork	\$	1,921
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Title Applications		4,852
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Candidate Filing Fee		150
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Miscellaneous	4,210	11,133
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Interest Earned		1,820
-----------------	--	-------

Gross Receipts		\$ 2,129,680
----------------	--	--------------

MORGAN COUNTY
 JANIS C WILLIAMS, CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses & Transfers \$ 226,156

Usage Tax 928,332

Tangible Personal Property Tax 229,132

Licenses-

Fish and Game 7,624

Marriage Licenses 1,688

Delinquent Tax 11,533

Legal Process Tax 11,813 \$ 1,416,278

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 37,982

Delinquent Tax 5,713

Deed Transfer Tax 8,797 52,492

Payments to Other Districts:

Tangible Personal Property Tax \$ 345,936

Delinquent Tax 50,118 396,054

Payments to Sheriff

2,135

Payments to County Attorney

13,228

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Salaries \$ 88,177

Overtime 4,919

Employee Benefits-

Employer's Share Social Security 11,683

Employer's Share Retirement 10,125

Employer's Paid Health Insurance 12,439 127,343

Disbursements (Carried Forward)

\$ 2,007,530

MORGAN COUNTY
 JANIS C WILLIAMS, CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements (Brought Forward)		\$ 2,007,530
Other Charges-		
Printing and Binding	\$ 2,158	
Office Expense	6,845	
Telephone	2,240	
Conventions and Travel	1,520	
Dues	350	
Postage	2,810	
Refunds	8,149	
Supplies & Materials	4,167	
Libraries & Archives Grant	15,268	43,507
Total Disbursements		<u>\$ 2,051,037</u>
Net Receipts		\$ 78,643
Less: Statutory Maximum		<u>61,306</u>
Excess Fees		\$ 17,337
Less: Expense Allowance	\$ 3,600	
Less: Training Incentive	2,189	5,789
Excess Fees Due County for Calendar Year 2001		\$ 11,548
Less: Payment to County Treasurer		<u>11,548</u>
Amount Due		<u><u>\$ 0</u></u>

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

MORGAN COUNTY
JANIS C WILLIAMS, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 1, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$15,280. The Clerk received \$3,488, earned \$4 interest, and expended \$0 during calendar year 2000. The Clerk received the remaining grant funds of \$11,792 during calendar year 2001. Funds totaling \$15,268 were expended during calendar year 2001. The unexpended grant balance is \$16 as of December 31, 2001.

Note 5. Leases

The office of the County Clerk is committed to a lease agreement with Xerox for two copiers. The first agreement requires a monthly payment of \$102 for 6 months, which was completed on June 30, 2001. The new agreement on the first copier requires a monthly payment of \$80 for 60 months to be completed July 1, 2006. The agreement on the second copier requires a monthly payment of \$144 for 60 months to be completed July 1, 2006.

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COMMENT AND RECOMMENDATION

MORGAN COUNTY
JANIS C. WILLIAMS, COUNTY CLERK
COMMENT AND RECOMMENDATION

December 31, 2001

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgement is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of adequate segregation of duties. However, Berger & Ross, has judged the lack of an adequate segregation of duties as a reportable condition. We recommend that compensating controls be established over receipts and disbursements.

County Clerk's Response:

Noted but lacks staffing to do so.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Bob Ross, MBA, CPA, CFE
Todd A. Berger, CPA

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American Institute of Certified Public Accountants (AICPA)
National Association of Tax Professionals (NATP)
Chartered Accountants (CA)
Chartered Financial Analysts (CFA)
Chartered Accountants in England and Wales (CAEW)
Chartered Accountants in Scotland (CA(S)A)
Chartered Accountants in Ireland (CAI)
Chartered Accountants in New Zealand (CA(NZ))
Chartered Accountants in Australia (CA(AU))
Chartered Accountants in South Africa (CA(SA))
Chartered Accountants in India (CA(INDIA))
Chartered Accountants in Hong Kong (CA(HK))
Chartered Accountants in Singapore (CA(SINGAPORE))
Chartered Accountants in Malaysia (CA(MALAYSIA))
Chartered Accountants in Brunei (CA(BRUNEI))
Chartered Accountants in the Philippines (CA(PHILIPPINES))
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Chartered Accountants in Vietnam (CA(VIETNAM))
Chartered Accountants in Cambodia (CA(CAMBODIA))
Chartered Accountants in Laos (CA(LAOS))
Chartered Accountants in Myanmar (CA(MYANMAR))
Chartered Accountants in Sri Lanka (CA(SRI LANKA))
Chartered Accountants in Bangladesh (CA(BANGLADESH))
Chartered Accountants in Pakistan (CA(PAKISTAN))
Chartered Accountants in Afghanistan (CA(AFGHANISTAN))
Chartered Accountants in Iraq (CA(IRAQ))
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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Morgan County Clerk for the year ended December 31, 2001, and have issued our report thereon dated June 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Morgan County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Proper Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition to be a material weakness.

- The County Clerk's Office Lacks Proper Segregation Of Duties

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Berger & Ross, PLLC

Audit fieldwork completed -
June 6, 2002

